



GOVERNANCE WORKSHOP

COMPARISON OF EXISTING ISO'S

PORTLAND, OR

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JOHN P. BUECHLER
Senior Executive Consultant
KEMA Consulting



ISO Board of Directors Issues

- Board Selection Process
- Qualifications for Board Candidates
- Board Composition
- Conflict of Interest Requirements



ISO Board Selection Process

- **NYISO**
- **PJM**
- **ISO-NE**
- **MISO**



NYISO Board Selection Process

- 18 member stakeholder selection committee used to seat the initial board.
 - Selected the 9 unaffiliated members.
 - Unaffiliated members selected the CEO.



NYISO Board Selection Process

- Composition of Selection Committee
 - 8 Transmission Owners
 - 2 Generators
 - 2 Consumer Reps
 - 1 Marketer
 - 1 MUNI
 - 1 ESCO
 - 1 Public Interest Rep
 - 2 PSC staff



NYISO Board Selection Process

- Voting
 - Formal voting requirement was 67%
 - In fact, consensus was achieved on all Board Members.
 - Search firm provided list of candidates to the selection committee



NYISO Board Selection Process

- **Summary**
 - Process worked well
 - Consensus achieved on all finalists
 - Entire process completed in 4 months
 - Some dissatisfaction with make-up of Selection Committee



NYISO Board Selection Process

- Replacement of Board Members
 - After seating of the initial Board Members, *the Board itself is self-perpetuating*
 - Management Committee assists Board by recommending candidates.
 - Board may seek other candidates
 - Board decision is absolute



NYISO Board Selection Process

- Removal of Board Members
 - Board may remove a member for cause
 - Management Committee may petition Board for removal of member for selection decision opposed to Management Committee recommendation may be appealed to FERC.



PJM Board Selection Process

- Initial Board was selected by utilities only
- Initial Board is still in place
- Executive search firm was used



PJM Board Selection Process

- PJM was the first ISO Board to be selected
- Selection process encountered no problems
- Probably not a relevant model for selection of new boards
- Selection committee should represent all stakeholders



PJM Board Selection Process

- Replacement of Board Members
 - Directors replaced by the Management Committee at its Annual Meeting
 - Search firm shall provide list of candidates (*Required by PJM-OA*)
 - Interim vacancies filled by remaining Board Members
 - Interim replacement to serve until next Members Committee annual meeting.



PJM Board Selection Process

- Removal of Board Members
 - Requires 70% super majority vote of Board
 - Also requires approval of the Members Committee



ISO-NE Board Selection Process

- Search committee was used
 - NEPOOL Executive Committee
 - NECPUC (State Regulatory Agencies)
 - Outside Attorney for ISO-NE
- Selection made by consensus
- Executive search firm was used



ISO-NE Board Selection Process

- Following initial selection , the Board is self-perpetuating
- **Summary**
 - Initial selection process was considered more “open” than in NYISO or PJM



MI SO Board Selection Process

- Signatories to the Transmission Facilities Owners Agreement selected an independent executive search firm by majority vote.
- Search firm provided slate of candidates
- Members Committee selected Board Members by casting a single vote for each board position
- Candidates with largest number of votes were elected to the Board
- Also an open, representative process



MI SO Board Selection Process

- Removal of Board Members
 - Upon petition of at least 20% of the members
 - Members Committee may remove a Board Member for cause by majority vote.



Executive Search firms were employed by all existing ISOs to assist in Board selection

FIRM

Korn-Ferry Int'l

Heidrick & Struggles

Russell-Reynolds

ISO

NYISO

PJM

ISO-NE

MI SO

Desert Star



Executive Search Firms - **Summary**

- No problem finding qualified candidates
- No problems encountered with any of the search firms used
- Some ISO's **MUST** use a search firm (e.g. PJM); others are discretionary



Board Selection Process - Recommendations

- Use a selection process with broad stakeholder representation
- Ideally, use same representation as used in ISO governance model
- Choose Board first
- Board should choose the CEO



Qualifications for Board Members

- NYISO
- PJM
- ISO-NE
- MISO



NYISO Board Qualifications

- Cross-section of skills and experience required, including:
 - Electric industry
 - Finance
 - Regulatory Affairs
 - Power pool operations
 - Public policy
 - Consumer advocacy
 - Law
 - Information Systems



NYISO Board Qualifications

- At least 3 directors must have relevant electric industry experience
- *Strong preference for New York candidates consistent with the ISO's conflict of interest policy.*



PJM Board Qualifications

- 4 must have senior management/board level experience in at least one of the following areas:
 - Corporate leadership
 - Finance or accounting
 - Engineering
 - Utility law & regulation



PJM Board Qualifications

- 1 must have experience in operation or concerns of transmission dependent utilities
- 1 must have expertise in operation or planning of transmission systems
- 1 must have expertise in commercial markets/trading/risk management



ISO-NE Board Qualifications

- Board members shall have a broad range of experience, including:
 - Utility operation or regulation
 - Finance or financial markets
 - Law
- Chair must have electric utility experience
- Vice-chair must have financial background



MI SO Board Qualifications

- 4 shall have experience & expertise in corporate leadership at senior management or board level; or
- In professional disciplines of
 - Finance
 - Accounting
 - Engineering
 - Utility laws & regulation



MI SO Board Qualifications

- 1 expertise in planning of electric transmission systems
- 1 expertise in operation of electric transmission systems
- 1 expertise in commercial markets/trading/risk management



ISO Board Composition

NYISO

PJM

ISO-NE

MISO

NYISO Board of Directors

AREA

DIRECTOR

Electric Industry

Richard Grossi (Chairman)

Electric Industry

William Boston (Vice Chairman)

Electric Industry

Harold N. Scherer, Jr.

Information Technology *Karen Antion*

Finance

Erland E. Kailbourne

Academia

Richard Schuler

Telecommunications

Alfred Boschulte

Equity Markets

Thomas F. Ryan,

Environmental

Peter Berle

President and CEO

William Museler





PJM Board of Managers

- Carolyn Smithson Burger Former President & CEO Bell Atlantic - Delaware
- John T. Coughlin Former Commissioner - Wisconsin PSC/ Attorney
- Lynn W. Eury Former Exec VP/Board Member - Carolina P&L
- Phillip G. Harris (Chair) CEO and President
- James E. Ksansnak Vice Chairman ARAMARK Corp/Member of Board/CPA
- Dr. Richard T. Lahey, Jr. E.E.Hood Prof of Engineering; Former Dean - RPI
- Frank L. Olson Former President & Gnl Mgr - MEAG Power, GA
- .
- Howard Schneider Partner Rosenman & Colin LLP/Attorney

ISO-NE Board of Directors

- ◆ Chair, William W. Berry
- ◆ Alger B. Chapman
- ◆ Donald L. Isaacs
- ◆ John G. Kassakian
- ◆ Alvin K. Klevorick
- ◆ Kenneth R. Leibler
- ◆ Vice-Chair,
Vincent M. O'Reilly
- ◆ Phillip J. Pellegrino
- ◆ Mary Sharpe
Hayes
- ◆ Charles G. Stalon
- ◆ Retired Chair, Dominion Resources and Virginia Power
- ◆ Retired Chair and CEO, Chicago Board Opticals Exchange
- ◆ Former Vice Chairman and Corporate Director, BayBanks, Inc.
- ◆ Professor and Lab Director, Massachusetts Institute of Technology
- ◆ John Thomas Smith Professor of Law and Professor of Economics, Yale University
- ◆ President and CEO, Liberty Financial Companies, Inc.
- ◆ Retired Executive Vice Chairman and CEO, Coopers-Lybrand, LLP
- ◆ President and CEO, ISO New England Inc.
- ◆ Vice President Strategic Planning, PEPCO
- ◆ Former Commissioner, Federal Energy Regulatory Commission



MISO Board of Directors

- James H. Young, Jr. Former Sr. VP - S. Carolina E&G Company
- Chairman
- Paul E. Hanaway Former Commissioner - Rhode Island PUC
- Vice-Chairman
- William O. Albertini Former Exec VP and CFO - Bell Atlantic Corp.
- David F. DeRosa, Ph.D. President - DeRosa Research and Trading, Inc.
- Donald L. Stokley Former President and CEO - MEAG
- William P. Vititoe Former Chairman, CEO, President - Washington Energy
- J. Clifford Dodd Executive VP - Systems Engineering
- Matthew Cordaro President & CEO MISO



Existing I SO Boards - **Summary**

- The selection process and qualifications requirements have resulted in seating of high quality individuals for each of the existing I SO Boards now in operation



ISO Board conflict of interest requirements:

NYISO

PJM

ISO-NE

MISO



NYI SO Conflict of Interest Requirements

- Must be unaffiliated with any market participant in the NYI SO or any affiliate of a MP
- Neither director, spouse, or minor children can own or control securities of a MP with power to vote.
- Any such securities, if held or inherited, must be sold *within 6 months* of election to the Board
- Cannot be an officer, director, partner, or employee of a MP or its affiliates.



NYISO Conflict of Interest Requirements

- Cannot be a former executive officer of an MP or affiliate which has three per-cent or more of the voting shares in the Management Committee, and is receiving continuing benefits from such MP (except as permitted in the Code of Conduct)
- Cannot have a material ongoing business or professional relationship with a MP or affiliate.



NYISO Conflict of Interest - Issues

- The three percent voting shares in the management Committee posed some difficulty in the selection process
- FERC rejected a one year stock divestiture initially proposed for the NYISO.



PJM Conflict of Interest Requirements:

- *Within five years of election*, cannot have been a director, officer, or employee of a member of affiliate or related party of a member.
- Shall have no direct business relationship or other affiliation with any member, affiliate or related party.
- “Ex Parte” disclosure requirement applicable to all Board members



ISO-NE Conflict of Interest Requirements

- Neither director, spouse, or minor children shall own, control, purchase or hold with power to vote any securities of a market participant or affiliate.
- Must divest any such securities within one year of election to the Board or acquisition of securities.
- Cannot be a director, officer, employee or partner of a market participant or affiliate.



ISO-NE Conflict of Interest Requirements

- Cannot be a former executive officer of a NEPOOL participant which, together with its affiliates, has three percent or more of the voting shares on the NEPOOL management Committee who is receiving continuing benefits under an existing employee benefit plan.
- Cannot have a material ongoing business or professional relationship with a market participant or affiliate.
- Cannot participate in any energy transactions within the ISO-NE markets (except for private consumption).



MI SO Conflict of Interest Requirements

- *Within two years of election* to Board, shall not have been a director, officer, or employee of a member, user or their affiliates.
- While serving on the Board and *for two years thereafter*, shall have no material business relationship or other affiliation with any member, user or their affiliates.
- Participation in a pension plan of a member, user or affiliate shall be permitted if the member or user's financial performance has no material effect on such pension plan



ISO Board Issues - Summary

- Independent Board needs a means to obtain input from and exchange views with Market Participants
- Code of Conduct should not hinder this process
- PJM Code of Conduct “ex parte” requirements are too restrictive
- PJM Liaison Committee now formed and has improved communications with Board



ISO Board Issues - Summary

- MP Liaison Committee also in place in NYISO
- Board Meetings should be open
- Need for a strong, independent Board
- Board should select the CEO/President
- Consideration may be given to a "hybrid" Board (I.e. - composed of both stakeholder and non-affiliated members--Desert Star)



ISO Stakeholder Committees

- Membership requirements
- Sectors
 - Classification
 - Number
 - Voting
- Sector representation
 - Representative
 - All party



NYISO Stakeholder Committees

- Three principal standing committees
 - Management Committee, reports to Board.
 - Operating Committee, reports to MC
 - Business Issues Committee, reports to MC
- Each standing committee has various subcommittees and ad hoc working groups



NYISO Stakeholder Committees

- **Membership requirements:**
 - Must be a party to the ISO agreement
 - All parties eligible for membership (i.e. – not a representative membership)
 - Any party may designate any person as its representative
 - Exceptions:
 - Small consumer N-F-P entities and governmental entities must be certified by the Board
 - “State-wide Consumer Advocate” must be selected by the Board
 - Environmental parties must be certified by the Board

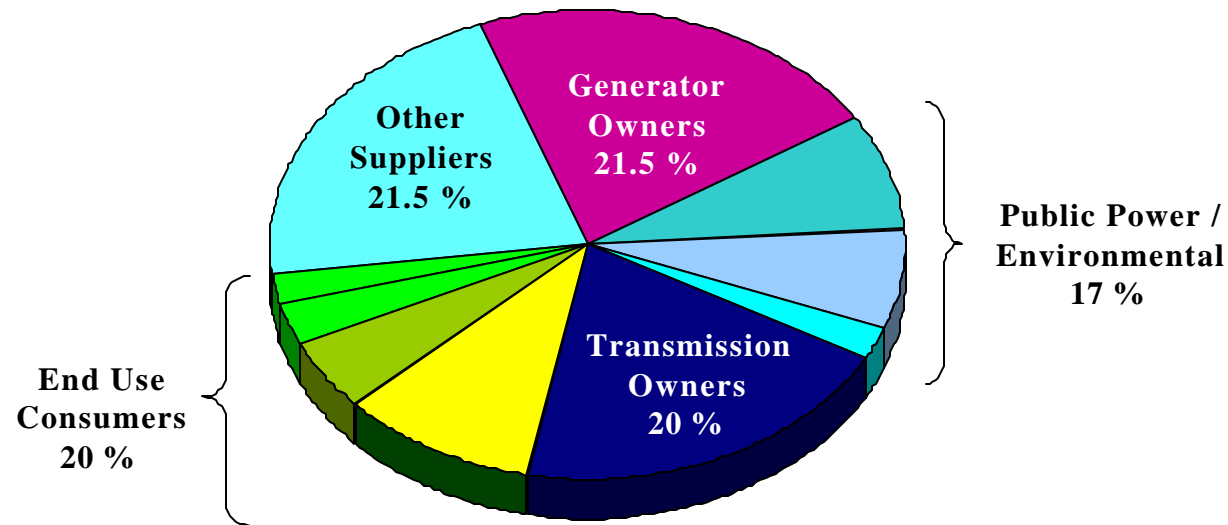


NYISO Stakeholder Committees

- Non-Voting Members:
 - FERC (have not attended yet)
 - NYS Public Service Commission
 - (PSC Staff attend all Committee meetings on a routine basis)

NYISO Committees by Sector

Five Voting Sectors (58% of votes to pass)





NYISO Stakeholder Committees

- Comprised of 5 sectors
- If qualified, any party of affiliate may participate in more than one sector
- **Exception:**
 - Any IOU transmission owner must participate in the TO sector
 - A state public power authority must participate in the public power/environmental sector
- Any party of affiliate may only vote in one sector
- A party may split its vote within its chosen sector



NYISO Stakeholder Committees

- **Sector activation:**
 - TO sector, state public power authorities subsector, and the governmental subsector shall always be active
 - Other sectors require a minimum of 5 parties to be active
 - Voting share of any inactive sector shall be equally apportioned to all active sectors
- **Voting**
 - 58% affirmative votes to pass a motion
- **Quorum requirements**
 - For management committee action, at least three sectors must have a quorum.
 - For each sector, at least 5 members or 50% of sector, whichever is less, shall constitute a quorum.



PJM Stakeholder Committees

- Four principal standing committees
 - Members Committee
 - Planning Committee
 - Operating Committee
 - Energy Market Committee
- Advisory Committees
 - Tariff
 - Audit
 - Finance
 - ADR
- Transmission Owners' Administrative Committee
- Reliability Committee
 - Membership: all LSE's in PJM



PJM Members Committee

- Membership requirements
 - Each member shall/may appoint a representative and an alternate on the Members Committee
- Non-voting Members
 - FERC
 - Any Federal agency with authority over a member
 - State Electric Regulatory commission
 - State office of Consumer Advocate



PJM Members Committee

- Comprised of 5 sectors
 - Generation owners
 - Other suppliers
 - Transmission owners
 - Electric distributors
 - End-use customers
- Each sector has equal vote (20%)
- Members may be active in only one sector



PJM Members Committee

- Only one member or affiliate may be active in the selected sector
- Sector activation
 - Each sector must have at least 5 members
- Voting
 - 1 vote per member
 - Sum of affirmative votes must be greater than $\frac{2}{3}$ times number of sectors voting
- Quorum requirements
 - Majority of members from at last three sectors



ISO-NE Stakeholder Committees

- Principal Stakeholder Committee is **Board Advisory Committee**
- Created as part of NEPOOL restructuring
- Comprised of 20-25 stakeholders from throughout new England
 - State regulators
 - Residential consumer reps
 - Municipal government
 - Engineering
 - Commercial/industrial consumer reps
 - Public interest
 - Environmental
 - Economic
 - Academia
- Role to advise Board on a variety of issues



New England Power Pool

- NEPOOL still exists
- Membership expanded: Currently over 130 members
- Members own the assets
- Develops rules for system reliability and market operations
- NEPOOL has its own governance structure.



NEPOOL Governance

- **Four Principal Committees**
 - Participants' Committee
 - Market Committee
 - Tariff Committee
 - Reliability Committee



NEPOOL Governance

- **Each Committee has Five Sectors**
 - Transmission Owners
 - Generators
 - Marketers/Brokers
 - Public Power
 - End User
- There is also a separate Transmission Owners' Committee



MI SO Stakeholder Committees

- **Three principal Committees**
 - Member Committee – All members
 - Advisory Committee – Sector representation
 - Owners Committee – Only TO's
- **Members Committee Eligibility requirements**
 - Must be either an “eligible customer” or
 - An “Owner” of transmission facilities; and
 - Must pay applicable MI SO membership fees
- **Voting**
 - Each member has one vote
 - Majority of members represented and voting is required.
- **Quorum requirements**
 - 25% of members (or proxies)



MI SO Advisory Committee

- Membership requirements
 - Representative structure – not a Committee of the whole
 - Each sector shall propose its own method for eligibility and voting for Board approval which shall not be unreasonably withheld
 - **Exceptions:**
 - State Regulatory Authority reps are chosen by State Public Service Commissions
 - Public consumer and environmental reps must be chosen by recognized organizations and certified by the Board; such groups to propose their own eligibility and voting methods for Board approval



MI SO Advisory Committee

- Any entity may participate in more than one sector if qualified
- Committee is advisory only
- There is no formal voting structure



MI SO Advisory Committee Structure

- Sector representation
 - 2 Transmission Owners
 - 2 MUNI /COOPs
 - 2 IPP's
 - 2 Marketers/Brokers
 - 2 End-Use Customers
 - 2 State Regulatory Authorities
 - 1 Consumer Group
 - 1 Environmental & Other Stakeholders



BREAK !





ISO Governance Relationships

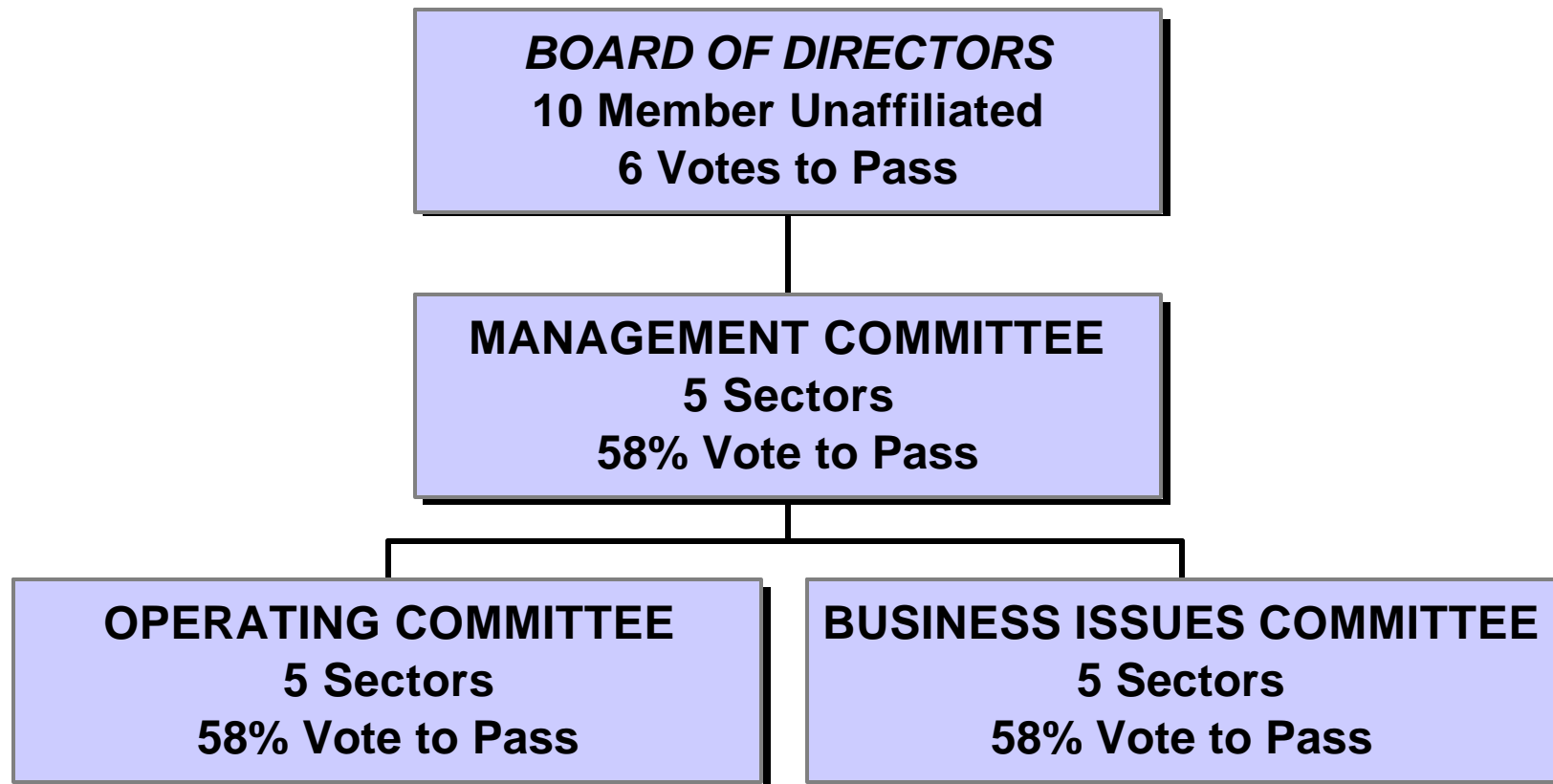
- **Relationship Between Board and Stakeholder Committees**
- **Role of Staff Relative to Board/Committees**



Relationship Between Board and Stakeholder Committees

- **NYISO**
- **PJM**
- **ISO-NE**
- **MISO**

NYISO Governance Structure





NYI SO Governance Agreements/Tariffs

Four principal agreements govern the relationships among the transmission owners, the NYI SO Board and the members of the NYI SO:

- NYI SO Agreement
- NYI SO/TO Agreement
- NYI SO/NYSRC Agreement
- NYSRC Agreement

These agreements have been approved by FERC



NYI SO Governance Agreements/Tariffs

Tariffs: The NYI SO administers transmission and other services to participants in the NY Bulk Electric Power System under two FERC approved tariffs:

- NYI SO Open Access Transmission Tariff (**OATT**)
- NYI SO Market Administration and Control Area Services Tariff (**Services Tariff**)



NYISO Governance - Relationships

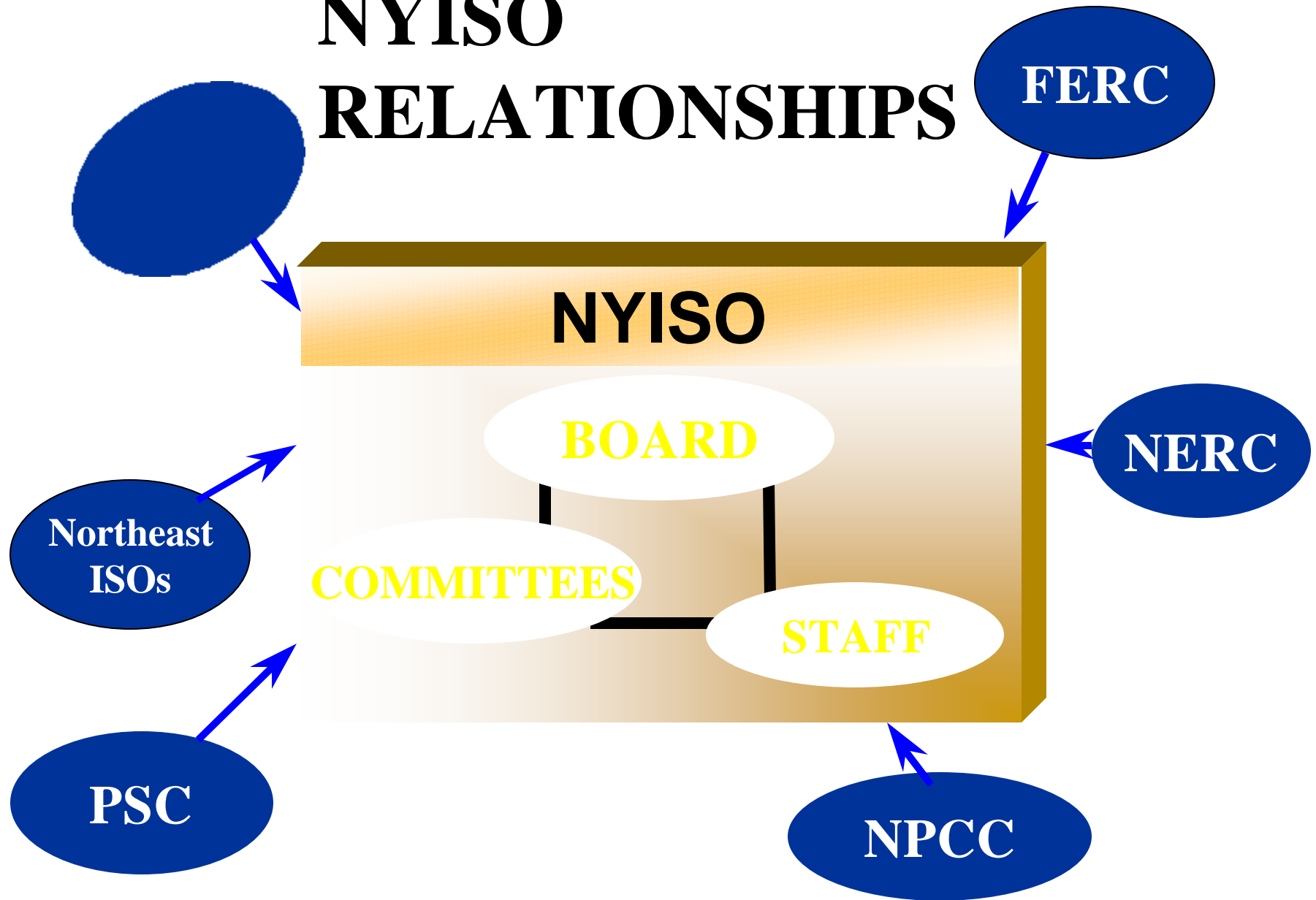
- Board shall review and determine appeals from actions of the Management Committee
- Board may suspend any actions of the Management Committee, pending such appeal
- Board may review any matter or committee action on its own motion
- Board has established a dispute resolution administrator
- Dispute resolution process includes both non-binding mediation and binding arbitration



NYI SO Governance - Relationships

- Management Committee shall review and determine appeals from actions of the Operating and Business Issues Committees and any other committee or subcommittee that may be established under the MC.
- Management Committee has established a Stay Review Committee with the power to stay the action taken by any lower committee.
- **Authority over tariff:**
 - **Concurrence of both the ISO Board and the Management committee is needed in order to file any tariff change with FERC under Section 205.**
 - **Lacking such concurrence, either party may make a Section 206 filing.**
 - **This structure may pose a problem relative to FERC Order 2000 requirements.**

NYISO RELATIONSHIPS





New York State Reliability Council (NYSRC)

- Operates as a “Sub-Regional” Reliability Council under the NPCC
- NYSRC shall develop Reliability Rules which govern the operation of the NY Bulk Power System
- **NYISO/NYSRC Agreement** defines relationship
- NYISO shall exercise operational control over the Transmission system and maintain the safety and short-term reliability of the NYS Bulk Power System in accordance with the Reliability Rules.



New York State Reliability Council (NYSRC)

- NYSRC can audit the NYISO's implementation of the reliability rules to assess its compliance
- NYSRC and NYISO function as two distinct and separate entities.
- **NYSRC Governance:**
 - 7 transmission owners
 - 1 seller in wholesale market
 - 1 large commercial/industrial customer
 - 1 MUNI /CO-OP
 - 3 Unaffiliated members



NYI SO Relationships - Summary

- Board/ME concurrence for 205 Tariff filing is problematic
- May not be in conformance with Order 2000
- Insufficient MP input prior to start-up
- Some (including FERC) have been critical of the single-state structure
- Concern over influence of non-MP's (e.g. - NYSPSC, Consumer/Environmental Groups)



ISO Relationships

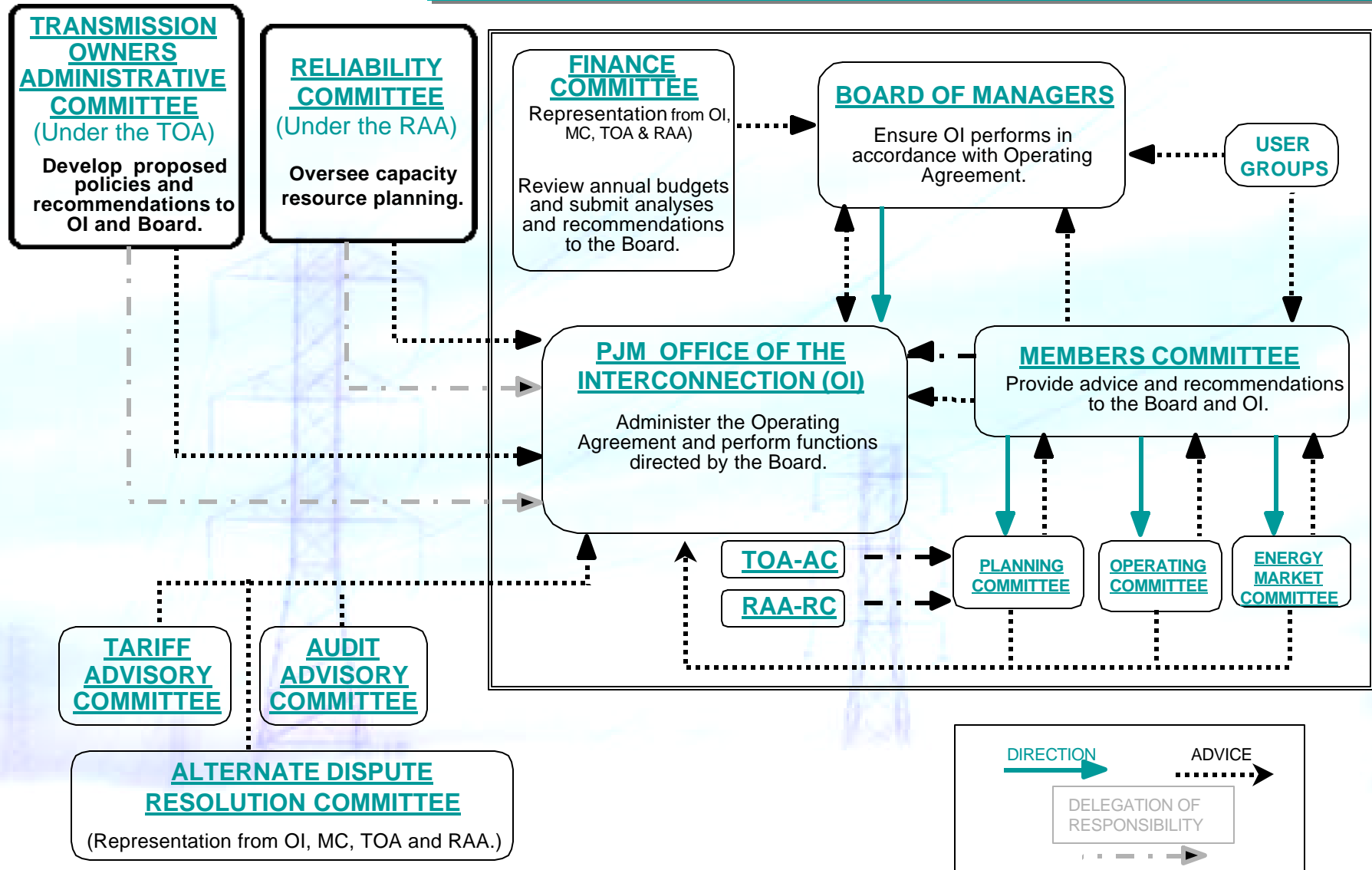
- **PJM**



- **NOTE: NEED TO REMOVE THE**
- **RTO WEST**
- **BACKGROUND FROM THE FOLLOWING SLIDE**



PJM ISO - LLC OPERATING AGREEMENT





PJM Governance Agreement/Tariffs

PJM operates under three principal agreements:

- PJM ISO Operating Agreement
 - PJM Reliability Assurance Agreement
 - All LSE's within PJM are signatories.
 - PJM Transmission Owners' Agreement



PJM Governance Agreement/Tariffs

- PJM ISO Operating Agreement
 - Principal Defines the basic governance structure and relationships for the PJM ISO
 - Board of Managers
 - Office of Interconnection (OI) Staff
 - Members Committee
 - Other Committees



PJM Governance Agreements/Tariffs

- PJM Reliability Assurance Agreement
 - Ensures capacity resource adequacy
 - Provides coordinated planning of capacity resources
 - Supports development of robust, competitive marketplace



PJM Governance Agreement/Tariffs

- PJM Transmission Owners Agreement
 - Delegates responsibility to PJM to administer the tariff
 - Determines that each party's facilities will operate as part of a single control area
 - Reserves certain rights to the TO's



PJM Governance Agreement/Tariffs

PJM Open Access Tariff (**OATT**)

All Three Agreements as well as the
OATT are approved by FERC



PJM Governance Relationships

- Board has absolute authority over changes to PJM's OATT
- Members Committee has authority over changes in the PJM Operating Agreement
- Transmission Owners have authority over changes in Transmission Owners agreement



PJM Relationships - Summary

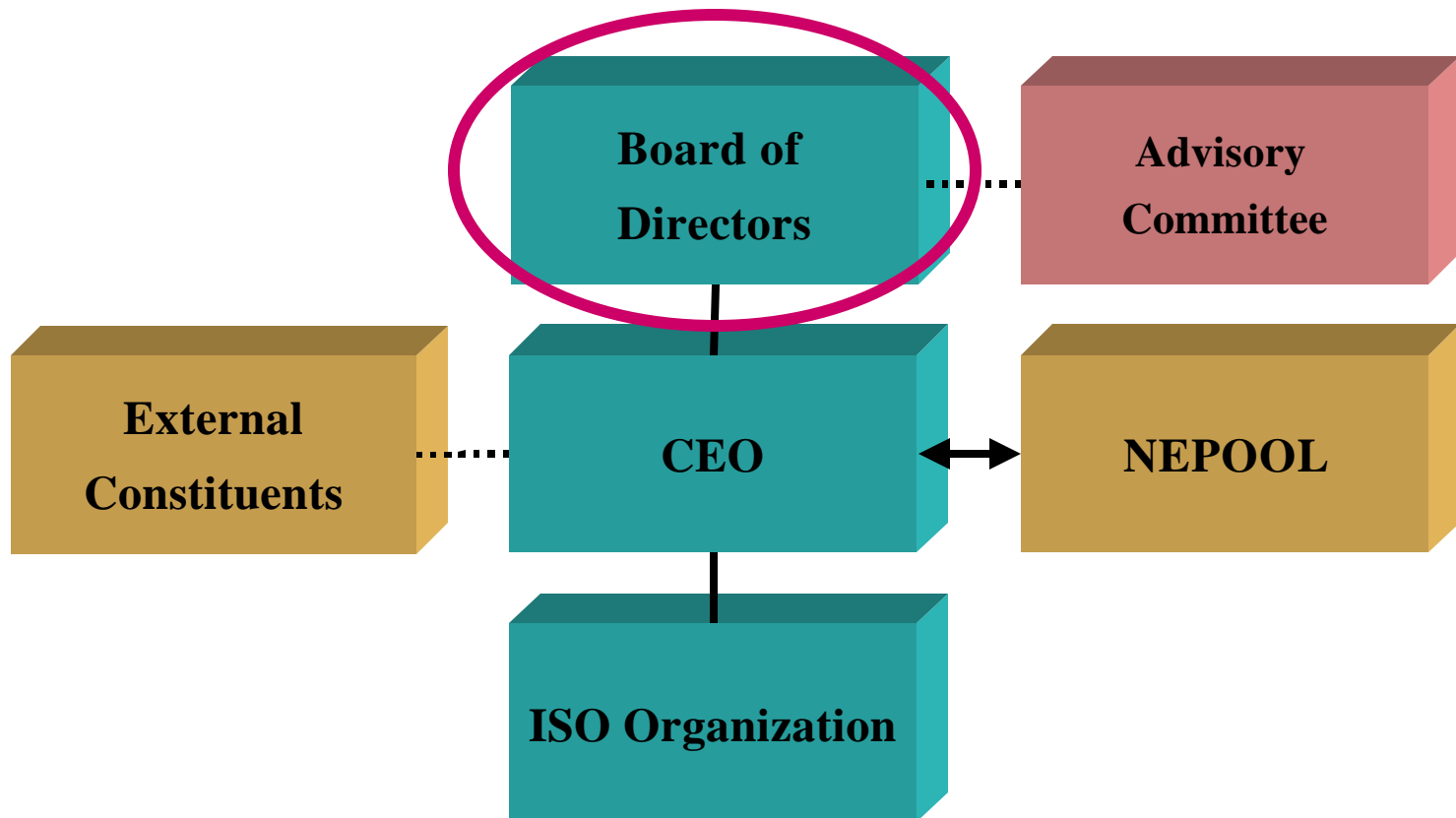
- Board has ultimate authority over Tariff
- Board may be “too isolated” from MP’s
- Board may be considered “too aggressive”
- Some contention has existed over the division of authority
- Establishment of a Liaison Committee has improved communications between Board and MP’s



ISO Relationships

- **ISO-NE**

ISO-NE Organizational Structure





ISO-NE Governance Agreements/Tariffs

New England Power Pool

- NEPOOL still exists
- NEPOOL has filed the transmission tariff with FERC
- Develops rules for system reliability and market operations
- NEPOOL has its own governance structure



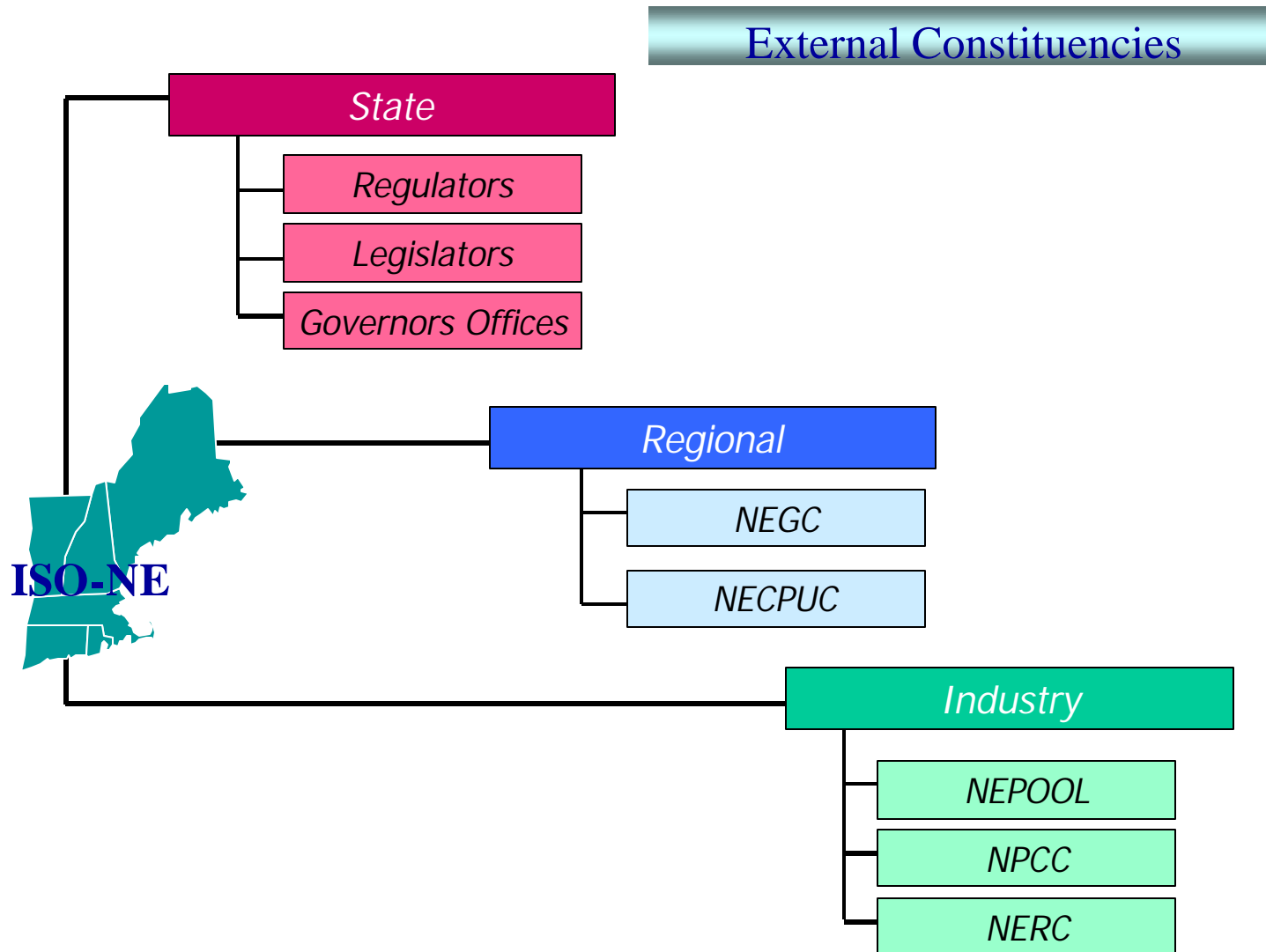
ISO-NE Relationship with NEPOOL

- Service Agreement with NEPOOL defines duties of each party
- SA Maintains an “arm’s length” relationship between NEPOOL and NE-ISO
- ISO-NE and NEPOOL use a consultative process to develop reliability or market rules/changes in rules



ISO-NE Relationship with NEPOOL

- ISO-NE has emergency authority to unilaterally establish rules to ensure reliability of protect the operation of the markets
- All rules are subject to FERC approval
- ISO-NE has its own Tariff to recover its operating costs





ISO-NE Relationships - Summary

- ISO-NE authority is unclear
- Division of authority is unweildy
- ISO-NE has expanded the use of its Emergency rulemaking authority
- FERC has stated that the relationship between ISO-NE and NEPOOL does not meet its "independence" characteristic under Order 2000



ISO Relationships

- **MISO**



MI SO Governance Relationships

- Board has final authority to administers the OATT.
- Members elect/remove the Directors
- Advisory Committee role is spurely advisory and provides a forum for exchange of information with the Board.
- "Owners Agreement" reserves certain rights to the transmission owners, regarding distribution of transmission revenues and return of start-up costs, pricing, and certain withdrawal rights.



MI SO Relationships - Summary

- Board has established an open process (more so than other ISO's)
- All Board meetings are open
- Board members regularly attend AC meetings
- Board members freely share opinions w/MP's
- Qualification: MI SO is not yet operational



Role of ISO Staff

- Typical Duties/Responsibilities
 - Day-to-day operation of the system and markets
 - Provide technical, secretarial and administrative support to MP committees
 - Provide secretarial, legal and administrative support to the Board



Role of ISO Staff

- Staff as Chair of Committees?
 - Non-voting position
 - PJM - from inception
 - ISO-NE - since March 2000 (at direction of FERC)
- Role of President/CEO
 - Voting member of Board
 - May Chair the Board (only PJM)



Thank you !

- **Any Questions ??**